

**TPPA: AWARENESS AND CHALLENGES TO MALAYSIA**

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**ABSTRACT**

The Trans-Pacific Partnership Agreement or TPPA, is a vehicle for trade liberalization through expanded market access, and increased foreign direct investment (FDI) for the 11 nations in the Trans-Pacific Partnership in the Asia-Pacific region. Even though Malaysian government has signed the agreement, but the Government is still finding the right time to implement the TPPA. The aim of this paper is to explore the benefits and the challenges of implementing the TPPA to Malaysia. It also examines the awareness and knowledge of university students about TPPA. The findings of the study revealed that students are not aware and have limited knowledge of the contents of TPPA. It is suggested that the Malaysian government should be more transparent and actively promote the TPPA program to our younger generation.

**Keywords:** TPPA; Malaysia; Awareness; Challenges.

**INTRODUCTION**

The Trans-Pacific Partnership Agreement or TPPA was initially a free trade agreement (FTA) builds on the FTA signed by the Pacific 4 (P4) countries; New Zealand, Singapore, Chile and Brunei Darussalam. The P4 FTA was signed in 2005 and came fully into force in 2009. The P4 was then expanded and the TPPA negotiations began with the entry of the United States, Australia, Peru, and Vietnam in March 2010. The first TPPA round was held in March 2010 and Malaysia became the 9th TPP member in October 2010, Canada and Mexico joined in December 2012 (15th Round) and Japan in July 2013 (18th Round). The membership in TPPA is voluntary, though it is limited only to Asia-Pacific Economic Cooperation (APEC) member economies. However, the United States new 45<sup>th</sup> President, Donald John Trump has withdrew the U.S. out of the pact in 2017, leaving only 11 nations in the Trans-Pacific Partnership (TPP) trade deal to proceed without the U.S.

The aim of TPPA is to give a level playing field by eliminating tariffs and other anti-competitive national laws that present trade barriers or trade inefficiencies. It is also a vehicle for trade liberalization through expanded market access, and increased foreign direct investment (FDI) within the countries in the Asia-Pacific region.

The TPPA is an initiative to establish a FTA among 11 countries with a market of 800 million people with a combined GDP of USD 27.5 trillion. There are 21 working groups which have been established to undertake negotiations on: Market Access; Technical Barriers to Trade; Sanitary and Phytosanitary Measures; Rules of Origin; Customs Cooperation; Investment; Services; Financial Services; Telecommunications; E-Commerce; Business Mobility; Government Procurement; Competition; Intellectual Property; Labor; Environment; Capacity building; on-conforming measures; Trade Remedies; Horizontal issues; and Legal and Institutional. Countries participating in the negotiations to establish the TPPA are free to table proposals on any of the issues being negotiated. All proposals however, have to be agreed by consensus.

Malaysian government had also taken a step ahead in participating into the TPPA round of discussion. On the 16<sup>th</sup> of January 2016, the Malaysian Parliament has ratified the TPPA with 126 votes in favor out of the total 222 Parliamentary representatives. The TPPA has been signed by Malaysia in New Zealand on February 4, 2016. After the TPPA is signed, it can be reviewed within two years after being ratified, thus the TPPA is expected to take effect in 2018. The TPPA will also allow Malaysia to continue to be an integral part of the deepening economic integration taking place within the Asia Pacific region, but also enable Malaysia to engage in more concrete way with important trading partners such as US, Canada, Mexico and Peru which we do not have any trade agreements structure. The idea of TPPA in Malaysia particularly to the younger generation is fairly a new idea, there are many undecided voice over these issues. Therefore it is the aim of this article to explore the benefit and the challenges of TPPA to Malaysia.

Section 2 discusses the benefit of TPPA to Malaysia. The challenges of TPPA to Malaysia is deliberates in Section 3. Section 4 describes the methodology whereby the data was collected using questionnaire survey and Section 5 discusses the data analysis and results. Finally, Section 6 provides the conclusion.

### **Benefits of TPPA to Malaysia**

The aims of TPPA is to promote economic liberalization in Asia Pacific region and to spur economic growth within the eleven nations. Among the benefits that Malaysia could reap from TPPA are as follows:

#### **2.1 Economic growth**

TPPA is an initiative to establish a free trade agreement among eleven nations with a market of 800 million people with a combined GDP of USD27.5 trillion (MITI). Malaysia's GDP is at USD296.2 billion in 2015 (The World Bank), thus with TPPA, it is expected that GDP will be

increased by USD107 billion to USD211 billion over the year of 2018 to 2027 (Bernama). In a layman terms, an increase in GDP means an improvement in income, more value addition in economy and high standard of living of the population. It also builds investor confidence and attract foreign investments, and builds capacity through free trade agreements (Normaliza et al., 2014). Consequently, it may reduce poverty and promote sustainable growth.

## **2.2 Eliminate/reduce tariff**

TPPA is expected to eliminate or reduce tariff across substantially all trade in goods and services. At present, there are many taxes and duties have to be paid by Malaysian businesses for the imported goods or services of another nation, which increase the final price that would be borne by final consumers. With the existence of the agreement, it is anticipated that there will be zero or minimal tariff, and removal of other trade barriers, thus reduce the price of the imported product and services. With TPPA, there will be an influx of imported or foreign goods and services, thus increase the competition with domestic products and services. Viewing from the positive perspectives, it is a good move so as to improve the quality of domestic products, which make Malaysian products become more competitive.

## **2.3 More market access**

At the same time, with the global standard of Malaysia's goods and services, local businesses can gain competitive advantage. According to Porter (1985), quoted from Drury (2004), competitive advantage can be achieved through product differentiation or cost leadership. Product differentiation occurs when the product can be charged at higher prices due to its unique and widely valued by buyers, while cost leadership occurs when providing the same value of goods and services as competitors, but at a lower price. TPPA enables greater market access for Malaysian products in other nations, especially to countries that Malaysia is yet to have a trade pact, for example Canada, Mexico and Peru. These countries do not have any FTA with Malaysia, thus creating new opportunities for Malaysian businesses and consumers. Moreover, sectors like textile, electrical and electronics, palm oil and rubber industries are the example of industries that would reap the benefits arising from the opportunities arising from an expanded market (The Star Online).

## **2.4 Promote good governance**

TPPA promotes good governance in the process of decision making and in the process by which decisions are implemented. It is aimed to become more transparent for the public to clearly understand why and how decision was made with regards to requirements and regulatory of TPPA. Moreover, one of the ways to improve investor confidence is to have good governance

practices that may contribute to better financial disclosures and more transparent business reporting (Che Haat, et al, 2008). Since Malaysian businesses are increasingly becoming global investors, a level of transparency and predictability are needed, that can only be achieved effectively through binding agreements like FTA (Normaliza et al. 2014). Transparency means the availability of full information required and that information is easily accessible and directly available as and when is needed.

### **2.5 Positive individual impact**

Malaysian citizen may also reap the benefits, directly or indirectly, from the Government move in signing the ambitious agreement together with the other ten countries. With freer market trade, continued inflow of foreign investments and improving in Malaysian GDP, TPPA will provide Malaysian businesses wider access to global markets and it will strengthen the country's economic growth. Moreover, it generates more job opportunities and promotes the sustainability of economic development. It also creates new opportunities for Malaysian public and businesses to improve common prosperity and standard of living of 31.7 million people. There will be an increase in wage growth, projected to increase between 0.45 and 0.91%, for unskilled labor, and between 0.38 and 0.78% for skilled labor (The Star Online). TPPA also benefit consumers in terms of more choices of products and services, either imported or locally produces.

### **Challenges of TPPA to Malaysia**

The Malaysian Government is aware that while the TPPA would offer many benefits to Malaysia and its people, it also has few challenges which the Government has to deal with and further negotiate for the best outcome.

### **3.1 Government Procurement**

Government procurement is one of the new elements in the TPPA which was never part of the FTAs that Malaysia has signed. Government procurement or known as public procurements. It refers to the procurement of works, supplies and services with the underlying principle of public accountability, transparency, value for money, open and fair completion and fair dealing. The main objective of Government procurement is to support government programs by obtaining value for money through acquisition of works, supplies and services. One of the policies is to encourage and support the involvement of Bumiputera (indigenous) entrepreneurs in line with the nation's aspirations to create Bumiputera commercial and industrial community. The challenge is whether government procurement rules in TPPA should allow TPPA countries to maintain local preferences over international was in controversy. In our context, a systematic protection is still needed to safeguard the interest of the Bumiputera commercial and industrial community.

### **3.2 Labor Standard**

Before the TPPA takes effect, Malaysia is required to implement stronger labor standards. Due to the short term adjustment cost that may arise as a result of significant legal and institutional reforms that Malaysia must undertake in order to conform to the International Labor Organization (ILO) Declaration 1998 will upsurge significantly. This include freedom of association and the right to collective bargaining, elimination of forced labor, abolition of force labor and elimination of employment discrimination. Therefore, nine labor laws need to be amended to improve labor standards in the country after Malaysia finalized its participation which is time consuming. The laws are Employment Act 1955, Trade Unions Act 1959, Industrials Relations Act 1976, Employment Act 1955, Sabah Labor Ordinance (Chapter 67), Sarawak Labor Ordinance(Chapter 76), Private Employment Agencies Act 1981, Minimum Standards of Housing and Amenities Act 1990 and Children and Young Persons (Employment) Act 1966.

The impact of allowing the formation of trade unions is expected to be negatively viewed by employers. In this context, foreign workers will have the same rights as local workers including a leader of a union (Bernama). Conversely, it will lead to severe influx of foreign workers in Malaysia. Therefore, cautionary steps to maintain a significant degree of control over these amendments is needed to ensure the government is able to manage the pressure of domestic labor reforms.

### **3.3 Investor- State Dispute Settlement (ISDS)**

Investor-State Dispute Settlement (ISDS) is an importance mechanism in handling dispute that occurs. The establishment of ISDS will allow a private foreign direct investor to take legal action directly to a host government using an international arbitral mechanism. They preferred tribunals administered by the International Center for Settlement of Investment Disputes (ICSID) which is an independent international institution in the World Bank Group created via the 1996 Convention on the Settlement of Investment Disputes between States and Nationals of other states(Raj Bhala, 2014).Adversely, the decision of Malaysia highest judiciary can be bypassed and undermine Malaysia legal system itself. Thus, it has potential for huge adverse impact-upon country's sovereignty and even basic structure of the Malaysian Federal Constitution by virtue of Article 4 held that Federal Constitution is the supreme law of the federation.

ISDSwas designed as a way for private foreign investor to protect their investments against from any law that weaken their profit. At the heart of the system is a noble ideal: ensuring that countries provide "fair and equitable treatment" to private foreign investor. As a developing country like Malaysia, lacking of experience in dealing with those cases will inevitably expose the country to a bigger risk in losing the cases.

### **3.4 Sovereignty**

The sovereignty and equality of states are the basic building blocks of international law. The hallmarks of sovereignty are exclusive jurisdiction over a territory and population, non-intervention in the exclusive jurisdiction of other states and the need for states to give their consent to be bound by international obligations (ISIS). Nevertheless, the real public concern is that the TPPA compromises Malaysia's sovereignty. Among other issues that appear to stem are the large and powerful countries can use their dominant position to secure their desired objectives and outcomes. These countries can also exercise undue influence in the way that rights and obligations are interpreted and implemented, including in the making of Malaysian domestic laws, regulations and policies. In addition, the rules and disciplines imposed would restrict the policy space of countries such as Malaysia to regulate their affairs in a way they see fit. China is one of the world superpower which is also foreign business partner, while there may be reason to suspect that large countries will use their considerable bargaining power to their advantage in all their international negotiation, this cannot prima facie be taken as a disqualifying factor. Therefore, Malaysia's approach to protect its sovereignty had to be carefully calibrated especially as larger and more powerful countries are involved.

### **3.5 Small and Medium Enterprises (SME)**

Under TPPA, there will be an increased competition from large international corporations towards SMEs. The removal of tariffs could mean local producers and farmers now have to compete with tariff-free imports from other TPPA countries. The liberalized market, will adversely affected the sustainability of our SMEs. On the other hand, there is a greater chances that large international corporations abuse their positions and adopt monopolistic behavior which could impact SMEs.

The experience in Korea has evidently showed that the issue of unemployment is the main problem that had negative impact. A report from Economic Policy Institute entitled "No Jobs from Trade Pacts the Trans-Pacific Partnership Could Be Much Worse than the Over-Hyped Korea Deal" claimed that:

*The tendency to distort trade model results was evident in the Obama administration's insistence that increasing exports under KORUS would support 70,000 U.S. jobs. The administration neglected to consider jobs lost from the increasing imports and a growing bilateral trade deficit. In the year after KORUS took effect, the U.S. trade deficit with South Korea increased by \$5.8 billion, costing more than 40,000 U.S. jobs. Most of the 40,000 jobs lost were good jobs in manufacturing.*

*There was also a big gap between predictions and outcomes for the North American Free Trade Agreement enacted in 1994: NAFTA was supposed to create 200,000 new jobs through increased exports to Mexico but, by 2010, growing trade deficits with Mexico had eliminated 682,900 U.S. jobs, with job losses in every U.S. state and congressional district.*

Therefore, a liberalized market without a proper protection or guidance will likely jeopardize the sustainability of SMEs such as unemployment issue when many of SMEs are unable to compete, thus it is something that Malaysia should learn from this.

### **3.6 Increase in generic medicine prices**

The TPPA has the potential to maximize benefits and profits for multinational firms whom has the pattern for pharmaceutical product due to pattern right. This means it will greatly diminish public particularly low income group access to affordable medicines. On the other hand, the TPPA also limit the potential of local pharmaceutical sectors to manufacture and market cheaper generic products. Indirectly, it increases pharmaceutical expenditure on health authorities that work to meet the national drug needs. Once member countries agree to and sign the current TPPA, their legitimacy capacity to intervene in drug price regulation and intellectual property right will be impeded. Therefore, the cost of marketing generic medicines will increase and threaten the survival of these local companies, using intellectual property protection and data exclusively as an excuse (Robert E.Scott, 2013). This means pharmaceutical prices will be driven up by the agreement, and low income countries will either not have access to essential drugs or generic entry will be delayed.

### **Research Methodology**

The data was collected using a questionnaire survey, distributed to students studying in various programs, namely Accounting, Business and Finance program, in one public university in Malaysia. Since this study is an exploratory research, to explore the awareness and knowledge of the students on TPPA, the agreement that would impact them, directly and indirectly in future, the questionnaire was designed based on the basic concept of TPPA, extracted from Ministry of International Trade and Industry (MITI) website.

The questionnaire was divided into two main sections. The first section consisted of demographic data, including gender, age and program of study. The second sections consisted of three sub sections. The first sub section asked whether the students have ever heard about TPPA. Anchored only on two responses (yes and no), the aim is to examine in general whether the students have heard or came across this term before. Next sub section was questions which was

designed to examine the level of awareness the students have on the TPPA matters, followed by the knowledge of the students on TPPA issue, in sub section three. The responses for these questions are based on a five-point Likert scale, scored from 1 (not at all aware) to 5 (extremely aware) for the awareness level, while for knowledge level, the response scale is ranging from 1 (not at all know) to 5 (extremely know).

**Data Analysis and Results**

253 completed questionnaires were received from this administered survey. Demographic data shows 71.9% of the respondents are female students, compared to only 28.1% are male students. 95 respondents or 37.5% are from Business program, 96 (37.9%) of the respondents are from Accounting program and 62 (24.5%) from Finance programs. More than 50% of the respondents are first year students (80.2%), followed by second year (15%), third year (2.8%) and fourth year (2%).

Our first question was to examine whether the students have ever heard about TPPA. In total, 54.9% or 139 students have heard about TPPA, and it shows quite a moderate number of students are aware about TPPA (See Table 1). Out of these 139 students, Table 2 shows that 41% are from Accounting program, followed by 37.4% from Business and 21.6% from Finance program.

**Table 1: Overall score**

	<b>Yes (%)</b>	<b>No (%)</b>
Have you ever heard about Trans-Pacific Partnership Agreement or TPPA?	54.9	45.1

**Table 2: Heard about TPPA by Program**

<b>Heard about TPPA</b>		
	<b>Yes (%)</b>	<b>No (%)</b>
Business	37.4	37.7
Accounting	41	34.2
Finance	21.6	28.1
Total	100	100

The objective of this paper is to explore the level of awareness and knowledge of the students studying in various programs in one public university in Malaysia, on TPPA. Thus, our focus here is to provide the descriptive evidence of the levels of the concerns based on the respondents as a whole.

Our second questions asked students on their level of awareness on the basic idea of TPPA, as shown in Table 3. It reveals that for all the four questions asked, more than 50% of the students are not aware (scale 1 and 2), with the proportion of not at all aware are the highest.

**Table 3: Level of Awareness**

	<b>Scale</b>				
	<b>1 (%)</b>	<b>2 (%)</b>	<b>3 (%)</b>	<b>4 (%)</b>	<b>5 (%)</b>
Are you aware the number of countries that involves in TPPA?	43.1	26.9	20.2	7.5	2.4
Are you aware that there are 29 chapters of TPPA?	53.8	30.8	11.5	4.0	0.0
Are you aware of the content of TPPA?	43.9	26.1	20.6	9.1	0.4
Are you aware that with TPPA, Malaysia will gain access to a wider market?	40.7	19.0	20.9	11.5	7.9

Scale: 1 (not at all aware) to 5 (extremely aware)

Further analysis shows that the mean level of the questions asked are 2.3 and below for each question and 1.97 as a whole, which is quite low (Table 5).

Table 4 shows the results for the last sub sections, which aim to explore the level of knowledge the respondents have on TPPA. The content of this questions are extracted from MITI website that includes all the basic knowledge one should know regarding TPPA. From the table, it can be seen that like awareness level, the level of knowledge on TPPA are also low. All ten questions show the respondents have limited knowledge of TPPA, with the cumulative percent of more than 50% for scale 1 and 2. The highest mean of the questions are only 2.62 and it also shows that the level of knowledge was quite low (see Table 5).

**Table 4: Level of Knowledge**

	Scale				
	1 (%)	2 (%)	3 (%)	4 (%)	5 (%)
Recently, our Government has signed the TPPA.	33.2	17.0	19.8	14.2	15.8
The implementation of TPPA.	39.9	25.3	21.3	8.7	4.7
Countries that involves in TPPA.	40.3	24.9	20.6	12.3	2.0
The functions and goals of TPPA.	40.3	25.3	18.2	13.8	2.4
The abolishment of tariff, including to those products that are importance to Malaysia.	41.9	22.9	24.1	10.3	0.8
The potential benefits of TPPA to you as a consumer.	41.1	22.5	22.1	11.9	2.4
The potential impact of TPPA to you as a consumer.	38.7	26.1	18.2	13.8	3.2
The potential of new employment opportunities.	39.1	24.9	20.2	11.9	4.0
The potential of improving Government revenues through export activities	37.2	24.1	23.7	12.6	2.4
The possibilities of Government being sued by the international companies for any dispute	45.8	19	21.7	7.9	5.5

Scale: 1 (not at all know) to 5 (extremely know)

**Table 5: Descriptive Statistics**

	<b>Mean</b>	<b>Variance</b>	<b>Min</b>	<b>Max</b>
Are you aware the number of countries that involves in TPPA?	1.99	1.15	1	5
Are you aware that there are 29 chapters of TPPA?	1.66	0.70	1	4
Are you aware of the content of TPPA?	1.96	1.05	1	5
Are you aware that with TPPA, Malaysia will gain access to a wider market?	2.27	1.72	1	5
Recently, our Government has signed the TPPA.	2.62	2.14	1	5
The implementation of TPPA.	2.13	1.38	1	5
Countries that involves in TPPA.	2.11	1.27	1	5
The functions and goals of TPPA.	2.13	1.34	1	5
The abolishment of tariff, including to those products that are importance to Malaysia.	2.05	1.14	1	5
The potential benefits of TPPA to you as a consumer.	2.12	1.31	1	5
The potential impact of TPPA to you as a consumer.	2.17	1.39	1	5
The potential of new employment opportunities.	2.17	1.40	1	5
The potential of improving Government revenues through export activities	2.19	1.30	1	5
The possibilities of Government being sued by the international companies for any dispute	2.08	1.49	1	5

Based on this exploratory descriptive evidence, it can be said that the level of awareness and knowledge on TPPA of the students are very limited. Even though the implementation of TPPA has not been realized yet, but the agreement may affect the students in future. Thus, the

government must take proper action to promote the positive impact of TPPA, as it will affect our young generation that will become our potential leader in future.

### **Conclusion**

This paper has provided the discussion on the benefits and challenges of TPPA to Malaysia. It also provided descriptive evidence of exploratory study to examine the awareness and knowledge of the students studying in a public university with regards to TPPA. It is suggested that despite its benefits which TPPA could bring, there are many challenges ahead. One of the big challenges is the awareness and knowledge of students on TPPA as highlighted from the findings of this paper. Since these students are potential leaders in future, their awareness and knowledge of this issue are important as it may affect their own self as an administrator, a trader or as a consumer, directly or indirectly. It is suggested that Malaysian government must make proactive move to promote the benefits of TPPA to our younger generation who have an important role in the future. The benefits of the agreement must also outweigh its costs, so as to receive support for this agreement.

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